

ACCOUNTING
Time allowed – 2 hours
Total marks – 100

[N.B. – The figures in the margin indicate full marks. Questions must be answered in English. Examiner will take account of the quality of language and of the manner in which the answers are presented. Different parts, if any, of the same question must be answered in one place in order of sequence.]

- | | Marks | | | | | | |
|--|--------------------|---------------|--------------------------|----------------|--|--------------------|--|
| 1. (a) What is the difference between “financial statements” and “financial reporting”? | 2 | | | | | | |
| (b) “Transactions are accounted for in accordance with their substance and economic reality and not merely their legal form”--- Explain with at least two examples. | 3 | | | | | | |
| (c) Describe at least four types of accounting errors that cannot be detected by the trial balance. | 4 | | | | | | |
| (d) XYZ Pvt. Ltd. is a manufacturer of televisions. The domestic market for electronic goods is currently not doing well, and therefore many entities in this business are switching to exports. As per the audited financial statements for the year ended 31 December 2015, the entity had net losses of Tk. 2 million. At 31 December 2015, its current assets aggregate to Tk. 20 million and the current liabilities aggregate to Tk. 25 million. Due to expected favorable changes in the government policies for the electronics industry, the entity is projecting profits in the coming years. Furthermore, the shareholders of the entity have arranged alternative additional sources of finance for its expansion plans and to support its working needs in the next 12 months. Should XYZ Pvt. Ltd. prepare its financial statements under the going concern assumption? Why? | 5 | | | | | | |
| 2. (a) On 1 January 2016, Mr. Hussein commenced trading of ice cream using a van. During the first month of his business, he made the following transactions. Prepare the journal entries for the following information. Assume that Mr. Hussein follows perpetual system for recording inventory. | 7 | | | | | | |
| <p>(i) Mr. Hussein started business with Tk.20,000 cash and borrowed Tk.24,000 from local branch of Sonali Bank Ltd with an interest @10% per annum payable quarterly.</p> <p>(ii) He hired an assistant for Tk.1,000 per month and paid Tk.800 during January 2016.</p> <p>(iii) He purchased ice cream from a local manufacturer, M/S Nahiyen & Co. The purchase price was Tk.26,000. He still owed Tk.7,000 to M/S Nahiyen & Co. for unpaid purchases on credit.</p> <p>(iv) His main business was to sell ice cream to retail customers, but he also did special catering for corporate customers, supplying ice creams for office parties. Sales to these customers were usually on credit. For the months ended to 31 January 2016, his total sales were: cash sales Tk.25,000 and credit sales Tk.15,000. No inventory remained unsold.</p> <p>(v) One of his credit sale customers had gone bankrupt (insolvent), owing Mr. Hussein Tk.2,500. Hussein has decided to write off the debt in full, with no prospect of getting any of the money owed.</p> | | | | | | | |
| (b) On 31 December 2014, Kasper & Co. has a Building with book value of Tk.940,000. The original cost and related accumulated depreciation at this date are stated below. | | | | | | | |
| <table style="border-collapse: collapse;"> <tr> <td style="padding-right: 20px;">Building</td> <td style="text-align: right;">Tk. 1,300,000</td> </tr> <tr> <td>Accumulated depreciation</td> <td style="text-align: right;"><u>360,000</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>Tk. 940,000</u></td> </tr> </table> | Building | Tk. 1,300,000 | Accumulated depreciation | <u>360,000</u> | | <u>Tk. 940,000</u> | |
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| | <u>Tk. 940,000</u> | | | | | | |
| <p>Depreciation is computed at Tk. 60,000 per year on a straight-line basis. Presented below is a set of independent situations:</p> <p>(i) On 1 April 2015, Kasper & Co. sold the building for Tk. 1,040,000 to ABC & Co.</p> <p>(ii) On 31 July 2015, the company donated the building to Aga Khan Foundation. The fair market value of the building at the time of donation was estimated to be Tk. 1,100,000.</p> <p>(iii) A fire completely destroys the building on 31 August 2015. An insurance settlement of Tk. 430,000 was received for this casualty. Assume the settlement was received immediately.</p> | | | | | | | |
| Requirements: | | | | | | | |
| For each independent situations mentioned above, prepare the journal entry to record the transactions. Make sure that depreciation entries are made to update the book value of the building prior to its disposal. | | | | | | | |
| | 9 | | | | | | |
| 3. (a) Mr. Wasi has received his bank statement for the month of December 2015. The bank statement dated 31 December 2015 showed a credit balance of Tk.14,130 whereas his cash book showed a debit balance of Tk.47,330. On scrutiny the cash book and bank statement, the following discrepancies were noted: | | | | | | | |
| <p>1) Bank charges of Tk. 60 had not been entered in the cash book.</p> <p>2) Cheques drawn by Wasi and totaling to Tk. 450 had not yet been presented to the bank.</p> <p>3) Wasi had not entered receipts of Tk. 530 in his cash book.</p> <p>4) The bank had not credited Wasi with receipts of Tk. 1,970 deposited into the bank on 31 December 2015.</p> <p>5) Standing order payments amounting to Tk. 1,240 had not been entered in the cash book.</p> <p>6) Wasi had entered a payment of Tk. 560 in his cash book as Tk. 650.</p> <p>7) A cheque received for Tk. 300 from a debtor had been returned by the bank marked “refer to drawer”, but this had not been written back in the cash book.</p> <p>8) Wasi had brought down his opening cash book balance of Tk. 6,585 as a debit balance instead of as a credit balance.</p> <p>9) An old cheque payment amounting to Tk. 880 had been written back in the cash book, but the bank had already honored it.</p> <p>10) Some of Wasi’s customers had paid to settle their debts by direct debit. Unfortunately, the bank had credited some direct debits amounting to Tk. 16,650 to another customer’s account.</p> | | | | | | | |
| Requirements: | | | | | | | |
| (i) Prepare a statement showing Wasi’s adjusted cash book balance as at 31 December 2015. | 7 | | | | | | |
| (ii) Prepare a bank reconciliation statement as at 31 December 2015. | 7 | | | | | | |
| (b) RACO Ltd. record of transactions for the month of April was as follows. | | | | | | | |

Purchases			Sales		
Date	Units	Unit cost	Date	Units	Unit Price
April 1 (Balance on hand)	600	@ Tk 6.00	April 3	500	@ Tk 10.00
April 4	1,500	@ 6.08	April 9	1,400	@ 10.00
April 8	800	@ 6.40	April 11	600	@ 11.00
April 13	1,200	@ 6.50	April 23	1,200	@ 11.00
April 21	700	@ 6.60	April 27	900	@ 12.00
April 29	500	@ 6.79			
	<u>5,300</u>			<u>4,600</u>	

Requirements:

- Assuming that perpetual inventory records are kept in units only, compute the inventory at April 30 using average cost. 4
- Assuming that perpetual inventory records are kept in taka only, compute the inventory at April 30 using FIFO. 3
- Compute cost of goods sold assuming periodic inventory procedures and inventory priced at FIFO. 3
- In an inflationary period, which inventory method – FIFO, AVCO - will show the highest net income? 2

4. (a) H.M. Shaad Yasin started his business in the name of Shaad Graphics Company Ltd. on 1 January 2015. At the end of the first 6 months of operations, the trial balance contained the following accounts balance:

Cash	9,500	Notes payable	20,000
Accounts receivable	14,000	Accounts payable	9,000
Equipment	45,000	Capital	22,000
Insurance expense	1,800	Graphic revenue	42,100
Salaries expense	30,000	Consulting revenue	16,000
Office Supplies	3,700	Rent & utility expense	3,200
		Advertising expense	1,900

Analysis reveals the following additional data:

- The office supplies purchased in January 2015. Supplies Tk. 1,300 as on 30 June 2015 is unused.
- The insurance premium has been paid on yearly basis. The policy was purchased on 1 March 2015.
- 9%, 6-month note payable was issued on 1 February 2015.
- Consulting fees Tk. 12,000 is credited to revenue on cash basis which will be completed in phases in next two years.
- The company has performed Tk. 12,000 of Graphic services that have not been billed as at 30 June 2015.
- Depreciation on equipment is Tk. 4,500 per year.

Requirements:

- Journalize the adjusting entries at 30 June 2015. (Assume adjustments are recorded every 6 months.) 6
- Prepare an adjusted trial balance. 7

- (b) XYZ Trading started operations on 1 July 2013 and in the twelve months to 30 June 2014 made credit sales of Tk. 300,000 and write off irrecoverable debts Tk. 6,000. The company received cash from customers during the year Tk. 244,000. The company estimated allowances for receivables Tk. 5,000 for the year ended June 2014. The company made credit sales of Tk. 200,000 in the following year ended 30 June 2015. The company decided to make provision @5% for allowances for receivables.

Requirements:

Show the calculation of allowances for receivables to be made in the year ended June 30, 2015. 6

5. The ledger balances listed below were extracted from the books of Friends International Ltd, a manufacturing company, as at 31 December 2015:

<u>Ledger balances (debit items)</u>	<u>Taka</u>	<u>Ledger balances (credit items)</u>	<u>Taka</u>
Inventories at 1 January 2015	106,000	General reserve	21,000
Purchase	2,281,000	Share capital of Tk. 10 each	382,000
Office supplies	20,000	Bank loan	58,000
Selling expenses	175,000	Accounts payable	80,000
Interest expense	8,000	Sales	3,200,000
Administrative expense	153,000	Gratuity payable	12,000
Accounts receivables	105,000	Retained earnings at 1 January 2015	130,000
Land and buildings at cost	840,000	Accu. depreciation-buildings at 1 January	166,000
Plant and machinery at cost	714,000	Accu. depreciation-plant and machinery at 1 January	368,000
Cash and cash equivalents	20,000	Interest payable	5,000
	<u>4,422,000</u>		<u>4,422,000</u>

You also obtained the following additional information:

- Depreciation is to be provided on the straight-line method on buildings and plant and machinery at 2% and 20% per annum respectively. The cost of the buildings at 31 December was Tk. 650,000.
- Inventories at 31 December 2015 comprised raw materials Tk.100,000, work in progress Tk.12,000 and finished goods Tk.58,000.
- The cost of supplies consumed is to be considered Tk.8,000.
- Provision is to be made for income tax @ 35%, based on the results of the year.
- A bonus issue of shares @10% of the paid up capital took place during the year. Management decided to transfer additional Tk.21,000 to the general reserve.
- The original bank loan of Tk.174,000 was taken out on 1 January 2006 for a term of 15 years, repayable in equal monthly installments on the 25th day of each month.

Requirements:

- Prepare Statement of Comprehensive Income for the year ended 31 December 2015. 12
- Prepare Statement of Financial Position at that date in accordance with the requirements of BAS 1. 13